

ANALYSIS OF AMENDED BILL

Author: Vasconcellos Analyst: Roger Lackey Bill Number: SB 1908
Related Bills: None Telephone: 845-3627 Amended Date: 05-12-98
Attorney: Doug Bramhall Sponsor: _____

SUBJECT: LAO Consult With FTB and Other Entities/Taxation Of Internet Business Activity

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED _____ STILL APPLIES.

☒ OTHER - See comments below.

SUMMARY OF BILL

This bill would require the Legislative Analyst, on or before February 1, 1999, in consultation with the business community, the Franchise Tax Board (FTB), the State Board of Equalization (BOE), the Director of Finance (DOF), the League of California Cities, and the California State Association of Counties, to prepare and deliver to the Legislature a report regarding taxation and business activities on the Internet.

EFFECTIVE DATE

Containing an urgency clause, this bill would become effective the date signed by the Governor.

SPECIFIC FINDINGS

Currently, no federal or state law exists specifically addressing the taxation of business activities conducted over the Internet.

However, **federal legislation** has been introduced that would impose a three year "moratorium" on state and local taxes on electronic commerce. This moratorium would not apply to any taxes on Internet access or online services generally imposed and actually enforced under state law before March 1, 1998.

DEPARTMENTS THAT MAY BE AFFECTED:

___ STATE MANDATE

___ GOVERNOR'S APPOINTMENT

Board Position:

___ S ___ O
___ SA ___ OUA
___ N ___ NP
___ NA ___ NAR
___ X ___ PENDING

Agency Secretary Position:

___ S ___ O
___ SA ___ OUA
___ N ___ NP
___ NA ___ NAR
DEFER TO _____

GOVERNOR'S OFFICE USE

Position Approved ___
Position Disapproved ___
Position Noted ___

Department/Legislative Director Date
Johnnie Lou Rosas 5/26/98

Agency Secretary Date

By: Date:

This bill would require the Legislative Analyst in consultation with the business community, the FTB, the BOE, the DOF, and other state and local agencies to prepare and report to the Legislature by February 1, 1999, policy options address state and local taxation of business activities conducted on the Internet.

The policy option report would address the following matters:

- The range of possible state or local taxes that could be applied to business activity on the Internet.
- Taxes that have been previously imposed or proposed with respect to business activity on the Internet, without regard to whether the tax applied specifically to business activities on the Internet or business activities conducted in California.
- With regard to Article XIII A of the California Constitution on tax limitations, the policy issues that must be addressed by the Legislature in order to prudently act with respect to the taxation of business activities on the Internet, including whether a moratorium on local Internet taxes is necessary in the short term to lessen the complexities of addressing the taxation of business activities on the Internet at the state level.

This bill would provide that in preparing the report the Legislative Analyst Office would allow an opportunity for public input regarding the design and the recommendations of the report.

Implementation Considerations

Implementing this bill would not significantly impact the department's programs and operations. However, since the scope of the study is extensive and the bill requires public input as a part of the process, it may be difficult to provide a comprehensive product by the February 1, 1999, deadline.

LEGISLATIVELY MANDATED REPORTS

This bill would provide that on or before February 1, 1999 the Legislative Analyst Office shall prepare and deliver a report regarding the taxation of business activities on the Internet.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

This bill would not impact the state's income tax revenue.

BOARD POSITION

Pending.